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Message Text

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ACTION IO-10

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C O N F I D E N T I A L SECTION 1 OF 2 GENEVA 4910

E.O. 11652: GDS
TAGS: UNCTAD, UN, ETRD, IMF
SUBJ: UN: U.S. INITIATIVE ON RAW MATERIALS AND THE ROLE OF
UNCTAD

REF: USUN 3082, 3139

1. SUMMARY: THE MISSION BELIEVES THAT U.S. SHOULD REVIEW ITS PAST NEGATIVE POSITION VIS-A-VIS EMPLOYING THE UNCTAD COMMITTEE ON COMMODITIES FORUM AND ASSOCIATED STAFF TO ADVANCE ITS POLICIES IN THE COMMODITIES FIELD. WE SUGGEST THAT WE SHOULD BUILD UPON SECRETARY KISSINGER'S STATEMENT IN HIS MAY 28 OECD SPEECH THAT THE U.S. IS PREPARED TO JOIN OTHERS IN AN EFFORT TO REVIEW THE MECHANISMS FOR STABILIZATION OF EXPORT EARNINGS OF LDCS BY PROPOSING AT THE JULY UNCTAD COMMITTEE ON COMMODITIES MEETING THAT UNCTAD AND IMF COOPERATE TO DEVELOP A PROGRAM FOR STABILIZATION OF EXPORT EARNINGS OF LDCS. THE COMMITTEE COULD BE ASKED TO FORWARD ITS RECOMMENDATIONS TO THE AUGUEST MEETING OF THE UNCTAD TRADE AND DEVELOPMENT
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BOARD WHICH IN TURN COULD SUBMIT SUCH A PROPOSAL TO THE

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UNGA 7TH SPECIAL SESSION. THUS THE U.S. COULD ENTER A
SUBSTANTIAL INITIATIVE IN THAT FORUM FLESHING OUT THE
SECRETARY'S OECD STATEMENT. WE OWOULD HOPE THE 7TH SPECIAL
SESSION WOULD ENDORSE THE PROPOSAL FOR FURTHER ACTION BY
UNCTAD AND IMF SO THAT THE MINISTERIAL LEVEL MEETING AT UNCTAD
IV IN NAIROBI IN MAY 1976 COULD GIVE APPROVAL TO THE
PROPOSAL. WE BELIEVE THIS INITIATIVE COULD CAUSE LDCS
TO MOVE AWAY FROM THEIR CAMPAIGN FOR BOTH INDEXATION
AND/OR THE INTEGRATED APPROACH, EITHER OF WHICH WOULD
CAUSE SERIOUS INTERFERENCE WITH THE MARKET MECHANISM. WE
ALSO BELIEVE THAT THIS APPROACH WOULD HAVE MERIT IN
BRINGING TO THE FOREFRONT THAT VALUABLE PORTION OF THE
UNCTAD SECRETARIAT STRUCTURE FROM THE REST AND WOULD,
IN TERMS OF THE FORTHCOMING RESTRUCTURING OF THE UN,
PROVIDE A MORE EASILY IDENTIFIABLE NUCLEUS FOR ANY
RECONSTITUTED UN MACHINERY FOR DEALING WITH TRADE
PROBLEMS. IN THE INTERIM, THE STAFF OF THE COMMODITIES
DIVISION COULD PROVIDE A VERY VALUABLE REINFORCEMENT OF
ANALYTICAL CAPABILITIES OF ESA, THE OECD AND THE IMF TO
CARRY FORTH OUR INITIATIVE WITHIN THE COMMISSION STRUCTURE
OF THE IEA AS PROPOSED BY THE SECRETARY.

2. WE NOTE FROM THE SCOPE PAPER DATED MAY 13, 1975,
PREPARED IN THE DEPARTMENT FOR THE 7TH SPECIAL SESSION
THAT FURTHER WORK IS SUGGESTED ON MAJOR ITEMS TO BE
REFERRED TO THE IMF AND IBRD ON THE PROBLEMS OF COMMODITIES.
UNCTAD IS NOTABLE FOR ITS ABSENCE AS A FORUM FOR FURTHER
ELABORATION OF OUR INITIATIVE WHILE AT SAME TIME WE NOTE,
IN CONTRAST, THE NETHERLANDS PROPOSAL FOR NY PREPCOM FOR
7TH SPECIAL SESSION DESIGNATES UNCTAD AS PRINCIPAL
LOCUS FOR FURTHER WORK ON ISSUES TO BE DEALT WITH BY
SPCIAL SESSION. IMF AND IBRD ARE REGARDED BY LDCS
WITH SUSPICION AS ORGANIZATIONS CONTROLLED BY DEVELOPED
COUNTRIES AND WE BELIEVE THAT NAY ATTEMPT TO CARRY FORWARD
OUR INITIATIVES SOLELY WITHIN THE CONTEXT OF THOSE
ORGANIZATIONS WILL RESULT IN CONFRONTATION AND ENHANCE
PRESSURES FOR FURTHER EXPANSION OF THE LDC ROLE
IN CONTROL OF THOSE TWO BODIES. WHILE WE MAY DESIRE TO
SHORT-CIRCUIT UN CONSIDERATION OF RAW MATERIAL PROBLEMS,
WE DOUBT THAT THE LDCS WILL PERMIT THOSE BODIES WHICH
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THEY CONSIDER MORE SYMPATHETIC TO THEIR INTERESTS, SUCH
AS UNCTAD, TO BE EXCLUDED FROM A SERIOUS ROLE IN THE
DEVELOPMENT OF ANY NEW APPROACH TO THE ISSUES.

3. DESPITE PAST UNHAPPINESS WITH UNCTAD'S PERFORMANCE
AND LACK OF EVENHANDEDNESS AND DESPITE CONTINUED UNHAPPI-
NESS WITH THE PERFORMANCE OF CERTAIN SECTIONS OF THE

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SECRETARIAT (NOTABLY SHIPPING AND TRANSFER OF TECHNOLOGY),
WE HAVE FOUND THAT THE DIVISION OF COMMODITIES HAS BECOME
INCREASINGLY COMPETENT AND PROFESSIONAL IN ITS OUTLOOK.
WE HAVE BEEN IMPRESSED WITH THEIR EFFORTS WITHIN THE
PAST YEAR, PARTICULARLY THE WORK OF MR. RIDLER, FORMERLY
OF THE IMF, AND MR. ABRAMOVICH, FORMERLY OF THE IBRD, TO
DEVELOP A RATIONAL POLICY VIS-A-VIS COMMODITY PROBLEMS.
IT SHOULD BE RECALLED THAT IT WAS NOT THE UNCTAD
COMMODITY DIVISION THAT GINNED UP THE INDEXATION CONCEPT,
BUT RATHER THE GENERAL ASSEMBLY. THE COMMODITY DIVISION,
WITH THE ASSISTANCE OF THE UNCTAD SYG, HAS ATTEMPTED TO
DEBUNK THE CONCEPT. SIMILARLY, IT WAS THE UNGA 6TH SPECIAL
SESSION IN ITS NIEO RESOLUTIONS WHICH SPUN OUT THE CONCEPT
OF AN INTEGRATED PROGRAM WHICH THE UNCTAD COMMODITY
DIVISION HAS ATTEMPTED TO FLESH OUT IN THE MOST RATIONAL
WAY POSSIBLE IN WHAT WAS GENERALLY CONSIDERED TO BE WELL-
PREPARED DOCUMENTATION. AS FURTHER ELABORATION OF THE
INTEGRATED PROGRAM APPROACH HAS BEEN UNDERTAKEN BY THE
SECRETARIAT, THEY HAVE COME TO REALIZE THE NUMBER OF
PRACTICAL DIFFICULTIES INHERENT IN THE SCHEME AND HAVE REDUCED THEIR
SIGHTS FROM 19 COMMODITY COVERAGE TO
ONLY 8 COMMODITIES.

4. IT IS OUR VIEW THAT WE MUST SHOW DISCRIMINATION
BETWEEN THIS VALUABLE AND RATIONAL PORTION OF THE UNCTAD
SECRETARIAT AND THE OTHER PORTIONS WHICH ARE FAR TOO
BIASED TO PERFORM ON A RATIONAL LEVEL. THE SINGLING
OUT OF THE COMMODITIES DIVISION TO CARRY OUT A MAJOR
PORTION OF THE WORK REQUIRED TO CARRY FORTH OUR INITIATIVE,
WE BELIEVE, WOULD CONSIDERABLY REINFORCE THE SUPPORT
FOR ITS STAFF, AND MAY WELL PUT IT IN A LEADERSHIP
POSITION, THUS PERMITTING IT TO SERVE AS A NUCLEUS
FOR ANY POTENTIAL NEW TRADE BODY EMERGING FROMTHE
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RESTRUCTURING OF THE UN. IN THE INTERIM THE COMMODITIES
DIVISION STAFF IS CAPABLE OF PROVIDING REAL EXPERT INPUTS
INTO THE ANALYTICAL REQUIREMENTS FOR FLESHING OUT OF OUR
INITIATIVE AND OF REINFORCING THE CAPABILITIES OF ESA IN
NEW YORK, THE OECD IN PARIS, AND THE IMF IN WASHINGTON.
IT CAN ONLY BE ASSUMED FROM OUR VANTAGE POINT THAT SUCH
INPUTS WILL BE USEFUL IF THE COMMISSIONS (PARTICULARLY
THAT ON RAW MATERIALS) ESTABLISHED UNDER THE IEA IN
PARIS ARE TO BE ABLE TO EFFECTIVELY CARRY OUT THEIR
MANDATES.

5. WE BELIEVE, AS WELL, THAT ONE CANNOT FORGET THE
PRESSURES THAT THE UNCTAD SECRETARIAT HAS BEEN SUBJECTED
TO FROM THE LDCS TO PUSH AHEAD THEIR COMMODITY CONCEPTS
WITH A VIEW TO PLACING THESE BEFORE THE 7TH SPECIAL

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SESSION OF THE UNGA, APPARENTLY IN THE HOPES THE 7TH
SPECIAL SESSION WILL RECOMMEND THE ADOPTION OF THE
INTEGRATED APPROACH ON COMMODITIES, IF NOT THAT OF
INDEXATION, FOR FINAL CONSIDERATION AT THE MAY 1976
UNCTAD IV MINISTERIAL LEVEL MEETING IN NAIROBI. SHOULD
THE LDCS FORCE THE ADOPTION OF A RESOLUTION ENDORSING
AN INTEGRATED APPROACH TO COMMODITIES AT THE UNCTAD IV

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TO SECSTATE WASHDC PRIORITY 4097
INFO USUN NEW YORK PRIORITY 1900
US OECD PARIS 8087
USEC BRUSSELS 4701

C O N F I D E N T I A L SECTION 2 OF 2 GENEVA 4910

MEETING, WE BBELIEVE THAT IT WILL UNDOUBTEDLY FAIL TO
BECOME OPERATIONAL BECAUSE THE IMPOSSIBILITY OF ITS
IMPLEMENTATION ON THE PRACTICAL LEVEL, BUT THEN WE WILL
BE FACED WITH ESCALATED CONFRONTATION WITH THE LDCS WHO
WILL ATTRIBUTE ITS FAILURE TO THE LACK OF "POLITICAL
WILL" OF THE DEVELOPED COUNTRIES AND THIS COULD, IN
TURN, LEAD TO UNILATERAL ACTIONS ON CONTROL OF COMMODITY
SUPPLIES BY THE LDCS MUCH MORE DISRUPTIVE TO WESTERN
ECONOMIES.

6. TO OUR MIND, THE BEST POSSIBILITY TO DEFLECT THE
LDCS FROM PUSHING ON WITH THE INTEGRATED APPROACH IS

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BY A U.S. INITIATIVE WHICH NOT ONLY IS ACCEPTABLE TO US, BUT ALSO INVOLVES THE ACTIVE PARTICIPATION OF THE UNCTAD SECRETARIAT IN COOPERATION WITH THE IMF. THIS, WE BELIEVE, CALLS FOR THE DEVELOPMENT OF A PROGRAM FOR STABILIZATION OF EXPORT EARNINGS OF LDCS FROM THEIR COMMODITY TRADE. SECRETARY KISSINGER IN HIS OECD MINISTERIAL SPEECH POINTED TO THE PROBLEM OF STABILIZATION
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OF EXPORT EARNINGS AS A KEY ISSUE FOR LDCS, AND HE STATED THAT THE U.S. WAS PREPARED TO JOIN OTHER IN AN EFFORT TO REVIEW MECHANISMS FOR SUCH STABILIZATION. HOWEVER, THE ONLY POSSIBLE MECHANISM HE MENTIONED WAS THE IMF STABILIZATION FACILITY. THE ABSENCE OF A REFERENCE TO UNCTAD IN HIS STATEMENT WAS IMMEDIATELY NOTED HERE AND GAVE RISE TO SOME ADVERSE COMMENTS ON THE INITIATIVE IN LDC QUARTERS. SINCE THE LDCS CONSIDER THE IMF TO BE DOMINATED BY THE WESTERN INDUSTRIALIZED COUNTRIES AND ARE KNOWN TO RESENT IMF SURVEILLANCE OF THEIR ECONOMIC AFFAIRS, WE BELIEVE THE POTENTIAL FOR ACCEPTANCE OF ANY U.S. INITIATIVE NOT INCLUDING OTHER FORA, PARTICULARLY UNCTAD, IS LIMITED. ON THE OTHER HAND, A COOPERATIVE EFFORT BOTH BY THE IMF AND UNCTAD TO DEVELOP AN EXPORT EARNING STABILIZATION PLAN HAS A CHANCE OF BEING CONSIDERED SERIOUSLY AND YET OFFERS A MEASURE OF PROTECTION TO BOTH LDC AND DC INTERESTS.

7 IF OUR SUGGESTIONS ARE ACCEPTABLE, WE BELIEVE WE SHOULD BE PREPARED TO ADVANCE ON INITIATIVE AT THE JULY MEETINGS OF THE UNCTAD COMMITTEE ON COMMODITIES, WHICH IN NORMAL COURSE OF EVENTS, WE COULD EXPECT TO FORWARD THE PROPOSAL ON AS A RECOMMENDATION TO THE UNCTAD TRADE AND DEVELOPMENT BOARD SESSION IN AUGUST. THIS WOULD PROVIDE SUFFICIENT TIME FOR THE BOARD TO CONSIDER THE MATTER AND RECOMMEND THAT THE 7TH SPECIAL SESSION OF THE UNGA TAKE UP THE MATTER SINCE BOTH UNCTAD AND THE IMF WOULD BE INVOLVED. WE COULD HOPE THAT THE PROPOSAL COULD THUS EMERGE AS A MAJOR U.S. INITIATIVE IN THE COMMODITY FIELD AT THE UNGA SPECIAL SESSION AND LAY THE GROUNDWORK FOR FURTHER ELABORATION AND CONSIDERATION AT THE RESUMED SESSION OF THE UNCTAD COMMITTEE ON COMMODITIES IN DECEMBER, IN PREPARATION FOR FINAL CONSIDERATION AT THE MINISTERIAL LEVEL SESSIONS OF THE UNCTAD IV IN MAY 1976. SHOULD SUCH A SCHEDULE PROVE UNREALISTIC, APPROVAL IN PRINCIPLE AT LEAST, MIGHT BE EXPECTED AT UNCTAD IV AND FURTHER WORK CARRIED FORWARD BY A JOINT UNCTAD-IMF INTERGOVERNMENTAL WORKING GROUP.

8. WE UNDERSTAND THAT THERE IS UNDERWAY NOW IN THE DEPARTMENT A COST STUDY OF VARIOUS WORLD-WIDE LDC EXPORT

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EARNING STABILIZATION SCHEMES. WE ARE IMPRESSED WITH THE POSSIBILITIES OF SOME SUCH SCHEME, WHICH WOULD CARRY SUFFICIENT OBLIGATIONS FOR THE LDCS TO USE THE FINANCIAL RESOURCES TRANSFER FOR DIVERSIFICATION IN CASES WHERE LONG-TERM TRENDS INDICATE OVER-SUPPLY OR TO CORRECT STRUCTURAL OR PRODUCTIVITY DEFICIENCIES. A PROPERLY DEVISED SCHEME COULD CREATE A REVOLVING FUND REQUIRING ONLY MINIMAL SUBSEQUENT ANNUAL CONTRIBUTIONS BY THE DCS AND COULD CONTRIBUTE TO THE DEVELOPMENT OF NEW RAW MATERIAL SOURCES IN LDCS TO MEET INCREASING DEMANDS.

9. SHOULD THE DEPARTMENT WISH TO GIVE SERIOUS CONSIDERATION TO A PROPOSAL SUCH AS WE HAVE OUTLINED, WE BELIEVE CONSULTATIONS WITH OTHER GROUP B MEMBERS SHOULD COMMENCE IMMEDIATELY SINCE THE SUCCESS OF ANY SUCH INITIATIVE IN SHIFTING THE FOCUS OF LDC THINKING ON COMMODITY PROBLEMS FROM MARKET INTERVENTION TO EXPORT EARNING STABILIZATION WILL REQUIRE THE WIDEST SUPPORT POSSIBLE BY THE MOST DEVELOPED COUNTRIES AND WILL ALSO REQUIRE ACTION WITHIN THE VERY NEAR FUTURE. THE BEST LOCUS FOR THIS IN OUR VIEW WOULD BE INT THE NEW OECD TASK FORCE ON COMMODITIES.DALE

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